Minutes*

Senate Committee on Finance and Planning
Tuesday, January 22, 2002
2:15 – 4:00
238A Morrill Hall

Present: Charles Speaks (chair), Prince Amattoe, Brittny McCarthy Barnes, Jean Bauer, Stanley Bonnema, Charles Campbell, David Chapman, Daniel Feeney, Gary Jahn, Wendell Johnson, Michael Korth, Elo Charity Oju, Richard Pfutzenreuter, Kent Rees, Terry Roe, Susan Carlson Weinberg

Absent: Michael Volna, J. Peter Zetterberg

Guests: Professor Joseph Massey (Faculty Consultative Committee); Dean Christine Maziar; Vice President Carol Carrier, Michael McGlynn, Barry Melcher, Jan Philibert (all Office of Human Resources)

Other: Michael Berthelson (Office of Budget and Finance)

[In these minutes: (1) committee matters; (2) the capital request, the six-year capital plan, and the budget; (3) tuition scholarships for graduate assistants; (4) statement on the subsidy for Twin Cities intercollegiate athletics; (5) options for paying accrued vacation and sick time and a new option in post-retirement health care coverage]

1. Committee Issues

Professor Speaks convened the meeting at 2:15 and reported on several items:

-- He has not yet begun contacting individuals to serve on the Capital Improvements Subcommittee because he wants to identify a chair first.

-- There will be an extra meeting of the Committee next week to discuss improving undergraduate graduation and retention rates, with particular attention to tuition models that might support such a goal.

-- On February 12 the Committee will hear from the two Twin Cities athletic directors; also invited are Professors Eugene Borgida (chair of the Advisory Committee on Athletics) and Laura Koch (chair of the Faculty Academic Oversight Committee for Intercollegiate Athletics).

-- Two items not on the agenda for this meeting include a statement on the subsidy for Twin Cities athletics (which was circulated earlier by email but which did not receive a sufficient number of votes to be adopted) and a letter to Executive Vice President Bruininks on common goods drafted by the Subcommittee on Twin Cities Facilities and Support Services.

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-- Rose Samuel has resigned from the Committee in order to pursue her studies in Switzerland; he asked that the minutes show a motion expressing thanks to her for her excellent participation in the deliberations of the Committee. A motion was made and passed unanimously.

-- Professor Stephen Gudeman has also resigned from the Committee because he is on leave; Professor Speaks asked that the minutes also reflect a motion commending Professor Gudeman for his extraordinary service as a committee member and his excellent service as chair. The motion was made and passed unanimously.

2. The Capital Request, the Six-Year Capital Plan, and the Budget

Professor Speaks turned next to Mr. Pfutzenreuter to lead a discussion of the capital request and the six-year capital plan. Mr. Pfutzenreuter distributed two handouts, one page summarizing the University's capital request and the Governor's response and a thick packet containing instructions to units on preparation of the next capital request.

In terms of the capital request, the Governor recommended $85.6 million of the $239.8 million the University requested. Of the $80 million in HEAPR (renovation and renewal) funds sought by the University, the Governor recommended $35 million; the Governor was silent on how the University should allocate the money. Of the remaining items, the University request and Governor's recommendation are as follows (amounts are in millions of dollars):

	U Request	Governor
Plant Growth Facilities	18.7	3.4
Lab Science Bldg (UMD)	33.0	25.5
(7.5 from the local unit)		
Nicholson Hall	24.0	10.0
MRRC (Educ)	18.4	-0-
Classroom Improvements	4.0	4.0
Translational Research	37.0	-0-
Bede Hall (UMC)	7.7	7.7
Social Sciences (UMM)	9.0	-0-
IT Tchg & Tech	3.0	-0-
Res & Outreach Ctrs	3.0	-0-
Northrop Design	2.0	-0-

On the Plant Growth Facilities, if the remaining phase is not funded until 2004, it will have taken eight years from start to finish. The UMD lab science building would be fully funded if this request is approved. There is not really a $10 million project in Nicholson; the University will ask the legislature to fully fund it or for permission to move the money to other expenditures. The full amount requested for classroom improvements was funded as was Bede Hall replacement at Crookston; all other requests were not supported. In general it appears that the Governor's office favored instructional rather than research facilities; it also may be that his proposal was low because he was aware the legislature would probably try to increase it.

What happens with a facility that was not recommended for approval, Professor Chapman asked? The University will testify at the legislature in favor of funding, Mr. Pfutzenreuter said; even if approved, he noted, the Governor could line-item veto an appropriation. If the University does not receive the money, would it find other sources, Professor Chapman followed up? It would not, Mr. Pfutzenreuter said; the building would roll over to the 2004 capital request.

Mr. Pfutzenreuter spoke about the politics of increasing the University's capital appropriation. While there may be support in the legislature for increased University funding, the Governor also included no local projects in his capital budget. He paid close attention to urban/rural funding and also supported only state-wide, state-supported institutions. As a result, there will be pressure from communities for local projects; the University will be competing against that pressure. Mr. Pfutzenreuter speculated that the University might nonetheless receive somewhat more money than the Governor recommended.

Professor Speaks recalled that there was an enormous lobbying effort for the new Art Building in the last capital session. Will there be a similar effort this year? If so, with what focus? Mr. Pfutzenreuter suggested the Committee address that question to Donna Peterson, the University's lobbyist. He noted that the kick-off event for the legislative effort was later in the day. This issue led to discussion of what the role of the deans will be in the legislative effort.

Mr. Pfutzenreuter next reviewed the letter and supporting documents from Executive Vice President Bruininks to the vice presidents, deans, and chancellors inviting submission of new capital projects. These instructions inform units what they need to do. In the meantime, the administration will bring to the Regents a new six-year capital plan in the fall and will bring a capital budget to the Board in the spring. Capital request items are due February 28 from the units; the most important period for consultation with this Committee will be March and April for the capital budget and immediately thereafter for the six-year capital plan. Mr. Berthelson reported that all of the information distributed at the meeting will be on the web.

The Committee then held a 30-minute discussion with Mr. Pfutzenreuter about the current budget situation. Mr. Pfutzenreuter explained that the Governor has recommended a $33-million reduction (5%) in the 2003 appropriation (from a $36 million increase). The University has complimented the Governor on his approach to the state's budget situation, which he relied on a combination of tax increases, budget reductions, and the reserve funds.

One subject that arose once again was whether the administration would "sweep balances." Mr. Pfutzenreuter told the Committee that the administration does not sweep balances and does not intend to and that units should preserve their balances. There has been no discussion of sweeping balances. On the other hand, he pointed out, units may need to draw on their balances for bridge funding in the case of expenditure reductions.

It is important that the administration's position on sweeping balances be communicated to the deans, Professor Speaks said. At the end of the discussion, he thanked Mr. Pfutzenreuter for his report and his update on the state budget.

<u>3. Graduate Assistant Benefits</u>

Professor Speaks next welcomed Dean Maziar to the meeting. He recalled for Committee members that the Committee adopted the following statement last May and sent it to Dean Maziar:

> Graduate Assistants at the University of Minnesota may be appointed for any percentage time to a maximum of 75%. Appointments in excess of 75% require special permission. If the appointment reaches the <u>minimum required for eligibility</u> (25%), the resident assistant receives a tuition benefit that equals twice the percentage of time appointed. For example, a 25% appointment leads to a 50% tuition benefit, a 37.5% appointment leads to a 75% tuition benefit, and a 50% appointment leads to a 100% tuition benefit. A non-resident assistant with a 25% appointment is eligible to pay resident tuition rates in addition to the 50% tuition benefit.
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> Tuition benefits are paid by employers (departments and PIs) in the form of a fringe-benefit charge. That charge is levied regardless of the percentage appointment. For example, a graduate assistant appointed for 25% (B-base) in FY01 at a base salary ($12.74/hr) receives a stipend of $4,968.60. Associated fringe benefits for that 25% appointment are $2,546.12, for a total compensation package of $7,514.72, The <u>tuition component</u> of the fringe benefit charges amounts to $2,059.20 ($5.28/hr x 390 hrs).
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> If a graduate student is appointed for less than 25% (for example, 12.5%) the employer is still charged for fringe benefits, including the tuition component: the stipend is $2,484.30, and the tuition component of the fringe benefits is $1,029.60. *The graduate assistant, however, does not receive the tuition benefit unless the assistant has an additional appointment that brings the total appointment to 25% or greater*.
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> The Senate Committee on Finance and Planning is sympathetic to the proposition that, ideally, all graduate assistants should receive 50% appointments and thus receive a 100% tuition benefit. That objective, however, cannot always be realized. Moreover, there are circumstances in which it might be educationally or budgetarily justifiable to appoint graduate assistants for less than 25%.
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> The Committee therefore recommends that the Vice President for Research and Dean of the Graduate School lower the threshold for triggering a tuition scholarship for graduate assistants from 25% (10 hpw) to 12.5% (5 hpw). The Graduate School should monitor the use of appointments of less than 25% time and report annually on the extent of their use to the Committee on Finance and Planning. In making this recommendation the Committee strongly urges employers (departments and PIs) to make every effort to ensure that the total appointment for any graduate assistant is at least 25%.

Dr. Maziar distributed to the Committee copies of an email exchange concerning these recommendations: the PeopleSoft programming changes are complete, testing is underway, and the changes the Committee recommended should be implemented by Fall, 2002. She reported that Associate Dean George Green will play the lead role in tracking the changes and communicating the change to the colleges. Ms. Barnes asked if the communication would include language the Committee adopted concerning employment of graduate assistants; Dr. Maziar said it would. Dean Green is concerned about the possibility of departments using the option of appointing at less than 25% time to cut expenses; he will serve as the Graduate School watchdog.

Professor Speaks asked that the Committee be kept informed about how the change is working. Dr. Maziar said she would; she said she recognized that the concern of the Committee was to BENEFIT students, not save money for employers.

Professor Feeney and the Committee thanked Dr. Maziar for her support of its recommendations.

4. Statement on the Institutional Subsidy for Twin Cities Intercollegiate Athletics

Professor Speaks now turned the attention of the Committee to the draft statement on the institutional subsidy for the Twin Cities intercollegiate athletics programs. He outlined the elements of the statement and invited Committee member comment and suggestion. If the statement is adopted, he said, it would be brought to the Faculty Consultative Committee on Thursday (January 24) and, if approved there as well, would be carried by Professor Massey to the Board of Regents at the hearing being held by the Board subcommittee on January 29,

Professor Massey noted that the subcommittee of the Regents is charged to take testimony on the intercollegiate athletics programs. He asked for a spot to speak on behalf of FCC. The subcommittee will not be making recommendations to the President or Regents, Professor Speaks added; it will collect information and forward it to the Regents and administration.

The Committee then spent considerable time reviewing the wording of the draft and how its points should be made.

-- It is probably not possible to eliminate the indirect costs in support of athletics, which total approximately $2 million in various offices.

-- There is no understanding with the legislature, explicit or implicit, that the University would continue to provide state funding for women's athletics, once the State Special appropriation for women's athletics ($3.2 million in 1996) was folded into the University's general operating budget. The Committee did not know if there was an internal agreement between the administration and women's athletics that the state funding would be continued. To suggest, however, that the $3.2 million is committed to athletics is inappropriate; there is no entitlement anywhere in the University to funds.

-- Should the Committee make a recommendation on how much to decrease the institutional subsidy to intercollegiate athletics, currently about $10 million per year?

-- With a combined athletic budget, it is misleading to present the data in such a way that the institutional subsidy is identified as going to women's athletics and to academic counseling; the footnote in the presentation agrees that this is a distinction without substance. The subsidy is for intercollegiate athletics.

-- The Committee discussed revenues and expenditures in intercollegiate athletics. The five-year projection of total cost in excess of athletic revenues, with the current subsidy and the projected gap between revenues and expenditures, is $80 million. It appears there is no readily available way to increase revenues, at least not in the short term, so expenditures must be decreased if the subsidy is to be reduced. The Committee is not in a position to identify how best to achieve contraction; it would also be premature to suggest how to do so. The Committee DOES believe it appropriate to say, however, what the acceptable level of any subsidy should be.

-- In terms of other Big Ten schools, only Minnesota and Northwestern provide institutional subsidies in excess of 20% of budget; four provide zero subsidy and the remainder provide subsidies that average significantly less than 10%.

-- The distinction between direct and indirect expenses is not persuasive. The expenses charged to indirect costs represent tasks that could be fulfilled by athletics but for the need for institutional supervision. Most of those expenses should be treated as direct subsidy. Committee members were startled at some of the amounts in central office budgets identified as indirect support for athletics.

The Committee voted unanimously in favor of a resolution embodying concepts finally agreed upon. Professor Speaks said he would revise the draft to reflect the points made in the discussion and circulate it by email the next day. Committee members would have until 10:00 on Thursday, January 24, to vote. If approved, the final statement will be brought to the Faculty Consultative Committee.

The final statement approved by the Committee read as follows:

> University Senate Bylaws, Article III, Section 8, provide that "The Finance and Planning Committee serves as the consultative body to the president and senior academic officers on all major issues of budget and planning, including the capital request." One of the duties and responsibilities of the SCFP is, "to consult with and advise the president and senior academic officers on the development of the biennial request and the annual budget and to review the implementation of the annual budget." It is therefore within the purview of the SCFP to advise the president and senior academic officers concerning whether or not it is appropriate for the University to provide an annual subsidy to intercollegiate athletics from institutional operating funds, and to render that advice in the context of other institutional priorities, financial obligations, and opportunity costs.
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> The *Statement on Twin Cities Intercollegiate Athletics* adopted by the SCFP on December 4, 2001, and the Faculty Consultative Committee on December 6, 2001, focused on a narrow financial issue: Institutional support for intercollegiate athletics. That issue is within the purview of the SCFP, and the Committee affirms its position that
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> **“we have no alternative to a recommendation that the University take action to scale back the use of institutional funds for intercollegiate athletics,” and**
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> **“we firmly believe the University must do whatever is necessary, in the very near future, to reduce its present and projected financial commitment to athletics.”**
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> With respect to institutional subsidization of intercollegiate athletics on the Twin Cities campus, the SCFP recommends that
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> **the magnitude of the subsidy, direct and indirect, should be brought into alignment with the subsidies provided by the other public institutions in the Big Ten and, in any event,**

should not exceed 10% of the total operating budget for intercollegiate athletics in any given year.

The Committee has not been provided with information about institutional subsidies that might be flowing to intercollegiate athletic programs on the other campuses of the University. It believes, however, that such subsidies probably exist and that, if so, they deserve the same serious scrutiny that has been given to the subsidy on the Twin Cities campus.

Adopted unanimously by the Senate Committee on Finance and Planning January 22, 2002.

5. Options for Accrued Vacation and Sick Time

Next, Professor Speaks welcomed Vice President Carrier and several of her colleagues from Human Resources to lead a discussion on how the University might deal with the financial liability of vacation and sick time accrued by civil service and bargaining unit employees.

Dr. Carrier began by distributing a sheet listing general provisions for vacation leave for civil service employees. The accrual rate is based on seniority: 0-5 years of service accrues 3 minutes per hour or about 1 day per month; 13-20 years accrues 5.65 minutes per hour or about 1.875 days per month, and so on. Civil service staff also accumulate sick leave on a schedule. Academic employees (including faculty on A or 11-month appointments), on the other hand, have 22 vacation days per year beginning with the year they start at the University and they have 22 days per year if they work here 40 years. Academic employees also have informal sick leave of up to two weeks and two and a half months of formal sick leave; disability begins with the fourth month. The point of the discussion, Professor Speaks said, is that departments should set aside money to pay for accumulated vacation and sick leave balances of its employees.

Dr. Carrier next handed out a sheet illustrating how benefits at the University compare to those provided by other public sector employees and by the private sector. The comparisons, drawn from a regional group of employers, suggest the University is in line with what is offered elsewhere. For someone with base pay of $33,850, the total cash benefits and time off for the three sectors are:

U of M	12,431	(36.7% of base)
Publics	12,386	(36.6% of base)
Private sector	10,518	(31.1% of base)

The primary reason for the difference between the public sector/University and the private sector is the additional vacation days that long-term employees can accumulate. These data are positive in terms of the University's ability to recruit employees.

Faculty and academic staff vacation is not tracked centrally but rather at the unit level. There has been no decision to use PeopleSoft to do such tracking; the administration cannot report on faculty and academic staff vacation time. Professor Speaks observed that 9-month faculty have no vacation. Dr. Carrier agreed and said it is up to units to deal with 9-month faculty who wish to be gone during the academic year.

All civil service employees can go to the one-stop at any time to see their vacation and sick leave balances as well as much additional information. Academic employees can obtain information on flexible spending accounts and retirement accounts (as can all employees) but they cannot check vacation time.

Mr. McGlynn said that the accrual rates for civil service and bargaining unit employees are well known and that people pay a lot of attention to them. The plan is well-defined, easily accessible through PeopleSoft, and people are quick to notify Human Resources if there is a problem. The system has aged well and it is generous. They do not receive complaints about it from employees.

Staff can be paid for up to two years' worth of vacation when they leave, Dr. Carrier said. The University's current liability for accrued vacation time totals $34.3 million: if everyone had left at the end of December, 2001, that is how much the University would have had to pay out.

How does the University's plan for accrual of vacation time for which an employee can be paid compare with other public institutions and with the private sector, Professor Speaks inquired? They are quite similar to the plan offered by the State of Minnesota, Dr. Carrier said; in the private sector, the plans vary considerably by company. Professor Speaks asked if Dr. Carrier had any idea how much of the $33 million resides in unit reserves identified for the purpose of vacation payout; she said she did not. Most units gauge their annual pay out and are typically able to cover them from open positions. They have not had any problems of which she is aware.

The Committee then discussed briefly the payouts made by colleges and the problems that arise with staff who are funded on grants. Dr. Carrier said there has been a significant effort to get information to units concerning vacation and sick leave for people paid out of grant funds. This is an issue that has become very complicated in recent years.

Inasmuch as the administration can track total vacation payout by year, why not set up another fringe pool for civil service and bargaining unit employees and pay these costs from that pool, Mr. Bonnema inquired? That would eliminate the necessity of departments paying out funds. Even if the cost were $2 million per year, that would be only a small increase in the fringe pool rate. Dr. Carrier agreed, but said that the Office of Budget and Finance argues that there is more discipline built in to the system if funds are managed at the unit level; if they were managed centrally, so the thinking goes, there would be more claims on them. That is an interesting argument but one that is hollow, Professor Speaks rejoined; it is not common for departments to set aside money for accrued vacation and sick leave, so when an employee leaves or transfers, the unit must scramble to find the money to transfer vacation to the receiving unit or to pay out to the employee if leaving the University.

Another provision of the vacation policy is that employees can be paid so they do not exceed the maximum accumulation if they are not permitted to take vacation when their accrual will exceed the maximum payable (e.g., a critical project requires that employees be on the job for a period). This works out well, Dr. Carrier said, because then employees do not feel they are losing money or vacation.

Finally, Dr. Carrier told the Committee about a new fringe benefit option, the Post Retirement Health Care Savings Plan (PRHCSP), run by the Minnesota State Retirement System. It could be used this year, and is already being used by a few groups, such as judges. Professor Feeney noted that the decision about using this option must be made by employee groups (i.e., civil service, P&A, faculty), and the decision to use it can be different for the different groups; this is an option that is being studied by the

Retirement Subcommittee of the Senate Committee on Faculty Affairs (of which Professor Feeney is chair).

The plan provides for setting aside pre-tax money that can be used to pay for retirement health insurance premiums and health care expenses. The University is not likely to fund retiree health care; this option provides a way to get at that problem. If the faculty wished to take advantage of this option, ALL faculty must do so. One way it might be funded, Dr. Carrier said, is to take .5% of a 3% salary increase and use it to fund the PRHCSP. On the other hand, while that option might be acceptable to more senior employees making good salaries, it might not be as attractive to lower-paid new employees who would rather have the cash salary than the set-aside for retirement health care costs.

Who makes the decision on whether to adopt this plan, Professor Speaks asked? Professor Feeney said the Retirement Subcommittee is examining that question and working with Employee Benefits. There are a number of questions that need to be answered before any decision is made. He added that the Retirement Subcommittee is only considering this option for faculty and for P&A staff; it has no responsibility or authority for civil service and bargaining unit staff. The goal is to act quickly to see if there is faculty and P&A buy-in, because a lot of employees could benefit from this contribution.

What happens to the money if the employee dies, Professor Jahn asked? It goes to the estate, Dr. Carrier said; the money is not forfeit.

It was agreed that once the Retirement Subcommittee submits its report to the Committee on Faculty Affairs, Professors Feeney and Goldstein would report to this Committee as well. It was also agreed that the question of dealing with accrued vacation liability is one to which the Committee would return.

Following additional discussion of the draft statement on athletics, Professor Speaks adjourned the meeting at 4:45.

-- Gary Engstrand

University of Minnesota